

CITY OF SHELL ROCK, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2020

- Prepared By -

Larry Pump, CPA  
117 North Jackson Street  
Charles City, IA 50616-2036  
Phone (641)257-4222

CITY OF SHELL ROCK, IOWA

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**CITY OF SHELL ROCK, IOWA**

**OFFICIALS**

**(Before January 2020)**

<b><u>NAME</u></b>	<b><u>TITLE</u></b>	<b><u>TERM EXPIRES</u></b>
Larry Young	Mayor	January 2020
Donald Bonzer	Mayor Pro tem	January 2020
Mike Klinefelter	Council Member	January 2020
Rosalee Meyer	Council Member	January 2020
Jared Krull	Council Member	January 2022
Garrett Schuldt	Council Member	January 2022
Marilyn Hardee	Clerk/Treasurer	January 2020
Karl Nelson and Bruce Toenjes	Attorney	January 2020

**(After January 2020)**

Larry Young	Mayor	January 2022
Donald Bonzer	Mayor Pro tem	January 2024
Jared Krull	Council Member	January 2022
Garrett Schuldt	Council Member	January 2022
Robyn Holden	Council Member	January 2024
Mike Klinefelter	Council Member	January 2024
Marilyn Hardee	Clerk/Treasurer	January 2021
Karl Nelson and Bruce Toenjes	Attorney	January 2021



## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council:

### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shell Rock, Iowa, as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinions.

### Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2019.

### Modified Opinions

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund

of the total fund balance at July 1, 2019, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shell Rock as of June 30, 2020, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

#### Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinions are not modified with respect to this matter.

#### Other Matters

##### *Supplementary and Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shell Rock's basic financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Other Information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 4 through 8 and 28 through 33, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

#### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated December 21, 2020 on my consideration of the City of Shell Rock's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Shell Rock's internal control over financial reporting and compliance.



December 21, 2020

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Shell Rock provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2020. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2020 FINANCIAL HIGHLIGHTS**

The City's total cash basis net position increased approximately \$1,357,000 from June 30, 2019 to June 30, 2020. Of this amount, the assets of the governmental activities increased approximately \$1,292,000 and the assets of the business type activities increased by approximately \$65,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net position liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

### **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

#### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system and the solid waste collection. These activities are financed primarily by user charges.

#### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains several Enterprise Funds to provide separate information for the water, sewer and garbage funds.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1,871,952 to \$3,163,646. The analysis that follows focuses on the cash basis net position of governmental activities.

# **Changes in Cash Basis Net Position of Governmental Activities**

(Expressed in Thousands)

	Year ended June 30, 2020
Receipts:	
Program receipts:	
Charges for service	\$ 28
Operating grants, contributions and restricted interest	219
Capital grants, contributions and restricted interest	161
General receipts:	
Property tax	783
Local option sales tax	94
Unrestricted interest on investments	15
Note proceeds, net	1,984
Other general receipts	617
Total receipts	<u>\$ 3,901</u>
Disbursements:	
Public safety	\$ 124
Public works	174
Health and social services	3
Culture and recreation	163
Community and economic development	84
General government	189
Debt service	283
Capital projects	1,589
Total disbursements	<u>\$ 2,609</u>
Change in cash basis net position	\$ 1,292
Cash basis net position beginning of year	<u>1,872</u>
Cash basis net position end of year	<u><u>\$ 3,164</u></u>

The cost of all governmental activities this year was \$2,609,597. As shown in the Statement of Activities and Net Position on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$2,201,582 because some of the cost was paid by those directly benefited from the programs (\$28,213) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$379,802).



**Changes in Cash Basis Net Position of Business Type Activities**  
(Expressed in Thousands)

	Year ended June 30, <u>2020</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 142
Sewer	157
Other	141
General receipts:	
Unrestricted interest on investments	1
Other general receipts	<u>5</u>
Total receipts	<u>\$ 446</u>
Disbursements:	
Water	\$ 97
Sewer	137
Other	<u>146</u>
Total disbursements	<u>\$ 380</u>
Change in cash basis net position	\$ 66
Cash basis net position beginning of year	<u>523</u>
Cash basis net position end of year	<u><u>\$ 589</u></u>

The cash balance increased by approximately \$66,000 from the prior year.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Shell Rock completed the year, its governmental funds reported a combined fund balance of \$3,163,646, an increase of \$1,291,694 above last year's total of \$1,871,952. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$60,001 from the prior year to \$371,466.

The Special Revenue, Road Use Tax Fund cash balance increased by \$75,915 to \$492,678 during the fiscal year.

The Debt Service Fund cash balance remained the same with no balance at the end of the year due to transfers in covering the debt service payments.

The Capital Projects, Capital Improvements Fund increased \$5,036 to \$550,146 during the fiscal year.

The Capital Projects, 2018 Aquatic Center Fund cash balance increased \$1,158,906 from the prior year to \$1,276,365 due primarily to bond proceeds received during the fiscal year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Enterprise, Water Fund cash balance increased by \$47,550 to \$232,743 during the fiscal year.

The Enterprise, Sewer Fund cash balance increased \$21,885 from the prior year to \$208,375.

## BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget one time. The amendment was approved on June 2, 2020 and resulted in an increase in operating disbursements of \$19,000 due mainly to economic development expenses. The City received federal and state grant monies and note proceeds to cover these expenses.

## DEBT ADMINISTRATION

At June 30, 2020, the City had \$2,760,000 in bonds and notes and other long-term debt outstanding, compared to \$1,015,000 last year, as shown below:

### Outstanding Debt at Year-End (Expressed in Thousands)

	June 30,	
	2020	2019
General obligation bonds and notes	<u>\$ 2,760</u>	<u>\$ 1,015</u>

Debt increased as a result of new debt issued during the year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,760,000 is below its constitutional debt limit of \$3,731,648.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Shell Rock's elected and appointed officials and citizens considered many factors when setting the fiscal year 2021 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marilyn Hardee, City Clerk, 802 N. Public Road P.O. Box 522, Shell Rock, Iowa 50670.

CITY OF SHELL ROCK, IOWA  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

			Program Receipts		
			Charges For Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	<u>Disbursements</u>				
<b>FUNCTIONS/PROGRAMS:</b>					
Governmental activities:					
Public safety	\$ 123,722	\$ 2,852	\$ 42,064	\$ -	
Public works	173,644	-	166,586	-	
Health and social services	3,000	-	-	-	
Culture and recreation	163,254	16,178	10,000	-	
Community and economic development	84,206	1,995	-	121,093	
General government	189,444	7,188	-	-	
Debt service	283,212	-	-	-	
Capital projects	<u>1,589,115</u>	<u>-</u>	<u>-</u>	<u>40,059</u>	
Total governmental activities	<u>\$ 2,609,597</u>	<u>\$ 28,213</u>	<u>\$ 218,650</u>	<u>\$ 161,152</u>	
Business type activities:					
Water	\$ 97,152	\$ 142,415	\$ -	\$ -	
Sewer	137,161	156,585	-	-	
Other	<u>146,018</u>	<u>141,005</u>	<u>-</u>	<u>-</u>	
Total business type activities	<u>\$ 380,331</u>	<u>\$ 440,005</u>	<u>\$ -</u>	<u>\$ -</u>	
Total	<u>\$ 2,989,928</u>	<u>\$ 468,218</u>	<u>\$ 218,650</u>	<u>\$ 161,152</u>	

(Continued)

**Net (Disbursements) Receipts and  
Changes in Cash Basis Net Position**

<b><u>Governmental Activities</u></b>	<b><u>Business Type Activities</u></b>	<b><u>Total</u></b>
\$ (78,806)	\$ -	\$ (78,806)
(7,058)	-	(7,058)
(3,000)	-	(3,000)
(137,076)	-	(137,076)
38,882	-	38,882
(182,256)	-	(182,256)
(283,212)	-	(283,212)
<u>(1,549,056)</u>	<u>-</u>	<u>(1,549,056)</u>
 \$ (2,201,582)	 \$ -	 \$ (2,201,582)
 \$ -	 \$ 45,263	 \$ 45,263
-	19,424	19,424
<u>-</u>	<u>(5,013)</u>	<u>(5,013)</u>
 \$ -	 \$ 59,674	 \$ 59,674
<u>\$ (2,201,582)</u>	<u>\$ 59,674</u>	<u>\$ (2,141,908)</u>

CITY OF SHELL ROCK, IOWA  
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

**General Receipts:**

- Property and other city tax levied for:
  - General purposes
  - Debt service
- Tax increment financing
- Local option sales tax
- Unrestricted interest on investments
- Bond proceeds, net
- Miscellaneous

Total general receipts

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

**Cash Basis Net Position**

Restricted:

Expendable:

- Streets
- Urban renewal purposes
- Debt service
- Other purposes

Committed for projects

Assigned for various

Unrestricted

**Total cash basis net position**

*See Notes to Financial Statements.*

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Position

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 483,569	\$ -	\$ 483,569
172,006	-	172,006
127,436	-	127,436
94,243	-	94,243
15,301	639	15,940
1,984,000	-	1,984,000
<u>616,721</u>	<u>5,306</u>	<u>622,027</u>
<u>\$ 3,493,276</u>	<u>\$ 5,945</u>	<u>\$ 3,499,221</u>
\$ 1,291,694	\$ 65,619	\$ 1,357,313
<u>1,871,952</u>	<u>522,837</u>	<u>2,394,789</u>
<u><b>\$ 3,163,646</b></u>	<u><b>\$ 588,456</b></u>	<u><b>\$ 3,752,102</b></u>
\$ 492,678	\$ -	\$ 492,678
1,491	-	1,491
-	63,214	63,214
437,707	-	437,707
1,311,521	-	1,311,521
550,146	-	550,146
<u>370,103</u>	<u>525,242</u>	<u>895,345</u>
<u><b>\$ 3,163,646</b></u>	<u><b>\$ 588,456</b></u>	<u><b>\$ 3,752,102</b></u>

CITY OF SHELL ROCK, IOWA  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES**  
**GOVERNMENTAL FUNDS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2020**

	<u>General</u>	<u>Special Revenue</u>
		<u>Road Use Tax</u>
<b>RECEIPTS:</b>		
Property tax	\$ 403,377	\$ -
Tax increment financing	-	-
Other city tax	3,637	-
Licenses and permits	7,188	-
Use of money and property	10,684	-
Intergovernmental	52,064	166,586
Charges for service	9,595	-
Special assessments	-	-
Miscellaneous	32,110	-
Total receipts	<u>\$ 518,655</u>	<u>\$ 166,586</u>
<b>DISBURSEMENTS:</b>		
Operating:		
Public safety	\$ 123,722	\$ -
Public works	82,973	90,671
Health and social services	3,000	-
Culture and recreation	153,272	-
Community and economic development	34,986	-
General government	182,433	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>\$ 580,386</u>	<u>\$ 90,671</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (61,731)</u>	<u>\$ 75,915</u>
Other financing sources (uses):		
Bond proceeds	\$ -	\$ -
Bond discount	-	-
Operating transfers in	80,321	-
Operating transfers out	(78,591)	-
Total other financing sources (uses)	<u>\$ 1,730</u>	<u>\$ -</u>
Change in cash balances	\$ (60,001)	\$ 75,915
Cash balances beginning of year	<u>431,467</u>	<u>416,763</u>
<b>Cash balances end of year</b>	<b><u>\$ 371,466</u></b>	<b><u>\$ 492,678</u></b>
<b>Cash Basis Fund Balances:</b>		
Restricted for:		
Urban renewal purposes	\$ -	\$ -
Streets	-	492,678
Other purposes	-	-
Committed for projects	-	-
Assigned for various	-	-
Unassigned	<u>371,466</u>	<u>-</u>
<b>Total cash basis fund balances</b>	<b><u>\$ 371,466</u></b>	<b><u>\$ 492,678</u></b>

*See Notes to Financial Statements.*

Debt Service	Capital Projects		Nonmajor	Total
	Capital Improvements	2018 Aquatic Center		
\$ 172,006	\$ -	\$ -	\$ 76,555	\$ 651,938
-	-	-	127,436	127,436
-	-	-	94,243	97,880
-	-	-	-	7,188
-	3,406	7,735	-	21,825
-	-	38,199	122,953	379,802
-	-	-	-	9,595
-	-	-	1,995	1,995
7	6,831	556,231	24,453	619,632
<u>\$ 172,013</u>	<u>\$ 10,237</u>	<u>\$ 602,165</u>	<u>\$ 447,635</u>	<u>\$1,917,291</u>
\$ -	\$ -	\$ -	\$ -	\$ 123,722
-	-	-	-	173,644
-	-	-	-	3,000
-	-	-	9,982	163,254
-	-	-	49,220	84,206
-	-	-	7,011	189,444
283,212	-	-	-	283,212
-	-	1,457,909	131,206	1,589,115
<u>\$ 283,212</u>	<u>\$ -</u>	<u>\$1,457,909</u>	<u>\$ 197,419</u>	<u>\$2,609,597</u>
<u>\$ (111,199)</u>	<u>\$ 10,237</u>	<u>\$ (855,744)</u>	<u>\$ 250,216</u>	<u>\$ (692,306)</u>
\$ -	\$ -	\$2,000,000	\$ -	\$2,000,000
-	-	(16,000)	-	(16,000)
111,199	31,598	30,650	70,132	323,900
-	(36,799)	-	(208,510)	(323,900)
<u>\$ 111,199</u>	<u>\$ (5,201)</u>	<u>\$2,014,650</u>	<u>\$ (138,378)</u>	<u>\$1,984,000</u>
\$ -	\$ 5,036	\$1,158,906	\$ 111,838	\$1,291,694
-	545,110	117,459	361,153	1,871,952
<u>\$ -</u>	<u>\$ 550,146</u>	<u>\$1,276,365</u>	<u>\$ 472,991</u>	<u>\$3,163,646</u>
\$ -	\$ -	\$ -	\$ 1,491	\$ 1,491
-	-	-	-	492,678
-	-	-	437,707	437,707
-	-	1,276,365	35,156	1,311,521
-	550,146	-	-	550,146
-	-	-	(1,363)	370,103
<u>\$ -</u>	<u>\$ 550,146</u>	<u>\$1,276,365</u>	<u>\$ 472,991</u>	<u>\$3,163,646</u>



CITY OF SHELL ROCK, IOWA  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

	<u>Enterprise</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>
Operating receipts:				
Charges for service	\$ 142,415	\$ 156,585	\$ 141,005	\$ 440,005
Operating disbursements:				
Business type activities	<u>68,395</u>	<u>91,016</u>	<u>146,018</u>	<u>305,429</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 74,020</u>	<u>\$ 65,569</u>	<u>\$ (5,013)</u>	<u>\$ 134,576</u>
Non-operating receipts (disbursements):				
Interest on investments	\$ 140	\$ 226	\$ 273	\$ 639
Miscellaneous	2,147	2,235	924	5,306
Capital projects	<u>(28,757)</u>	<u>(46,145)</u>	<u>-</u>	<u>(74,902)</u>
Net non-operating receipts (disbursements)	<u>\$ (26,470)</u>	<u>\$ (43,684)</u>	<u>\$ 1,197</u>	<u>\$ (68,957)</u>
Change in cash balances	\$ 47,550	\$ 21,885	\$ (3,816)	\$ 65,619
Cash balances beginning of year	<u>185,193</u>	<u>186,490</u>	<u>151,154</u>	<u>522,837</u>
<b>Cash balances end of year</b>	<b><u>\$ 232,743</u></b>	<b><u>\$ 208,375</u></b>	<b><u>\$ 147,338</u></b>	<b><u>\$ 588,456</u></b>
<b>Cash Basis Fund Balances:</b>				
Restricted for debt service	\$ -	\$ -	\$ 63,214	\$ 63,214
Committed for water deposits	-	-	37,386	37,386
Unrestricted	<u>232,743</u>	<u>208,375</u>	<u>46,738</u>	<u>487,856</u>
<b>Total cash basis fund balances</b>	<b><u>\$ 232,743</u></b>	<b><u>\$ 208,375</u></b>	<b><u>\$ 147,338</u></b>	<b><u>\$ 588,456</u></b>

*See Notes to Financial Statements.*

CITY OF SHELL ROCK, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

(1) Summary of Significant Accounting Policies

The City of Shell Rock is a political subdivision of the State of Iowa located in Butler County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Shell Rock has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board Criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Butler County Assessor's Conference Board, Iowa Northland Regional Council of Governments, Butler County Emergency Management Commission, Butler County Solid Waste Commission and Butler County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

CITY OF SHELL ROCK, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

(1) Summary of Significant Accounting Policies - continued

Expendable restricted net position result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subjected to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Special Revenue, Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The Capital Improvements Fund is used to account for moneys set aside for various City capital improvements.

The 2018 Aquatic Center Fund is used to account for the construction of the new aquatic center.

CITY OF SHELL ROCK, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

(1) Summary of Significant Accounting Policies - continued

The City reports the following major proprietary fund:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Property Taxes and Governmental Cash Basis Fund Balances

The following accounting policies are followed in preparing the financial statements:

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1.5% per month penalty for delinquent payments; is based on January 1, 2018 assessed property valuations; is for the tax accrual period July 1, 2019 through June 30, 2020 and reflects tax asking contained in the budget certified to the City Council in March 2019.

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

CITY OF SHELL ROCK, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

(1) Summary of Significant Accounting Policies - continued

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2020, no disbursements exceeded the amounts budgeted in any function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2020, the City had the following investments:

<u>Investment</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
U.S. Savings Bonds	<u>\$ 550</u>	<u>\$ 550</u>

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

A summary of changes in bonds and notes payable for the year ended June 30, 2020 is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation Bonds and Notes	<u>\$1,015,000</u>	<u>\$2,000,000</u>	<u>\$ 255,000</u>	<u>\$2,760,000</u>	<u>\$ 290,000</u>

**CITY OF SHELL ROCK, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**(3) Bonds and Notes Payable - continued**

General Obligation Bonds and Notes

A summary of the City's June 30, 2020 general obligation bonds and notes payable is as follows:

Year Ending June 30,	General Obligation Issued Jun 23, 2011			General Obligation Issued Feb 25, 2015			General Obligation Issued Mar 24, 2015		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2021	2.75%	\$ 150,000	\$ 4,125	1.60%	\$ 50,000	\$ 14,570	2.60%	\$ 10,000	\$ 1,500
2022		-	-	2.10	50,000	13,770	2.80	10,000	1,240
2023		-	-	2.10	50,000	12,720	3.00	10,000	960
2024		-	-	2.10	50,000	11,670	3.20	10,000	660
2025		-	-	2.70	60,000	10,620	3.40	10,000	340
2026-2030		-	-	2.70-3.20	300,000	27,900		-	-
2031-2035		-	-		-	-		-	-
2036-2039		-	-		-	-		-	-
<b>Total</b>		<b>\$ 150,000</b>	<b>\$ 4,125</b>		<b>\$ 560,000</b>	<b>\$ 91,250</b>		<b>\$ 50,000</b>	<b>\$ 4,700</b>

Year Ending June 30,	General Obligation Issued Dec 2, 2019			Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total
2021	2.00%	\$ 80,000	\$ 69,269	\$ 290,000	\$ 89,464	\$ 379,464
2022	2.00	80,000	44,666	140,000	59,676	199,676
2023	2.00	85,000	43,064	145,000	56,744	201,744
2024	2.00	85,000	41,366	145,000	53,696	198,696
2025	2.00	90,000	39,664	160,000	50,624	210,624
2026-2030	2.10-2.20	495,000	168,762	795,000	196,662	991,662
2031-2035	2.20-2.45	565,000	110,722	565,000	110,722	675,722
2036-2039	2.45-2.75	520,000	35,786	520,000	35,786	555,786
<b>Total</b>		<b>\$2,000,000</b>	<b>\$553,299</b>	<b>\$2,760,000</b>	<b>\$ 653,374</b>	<b>\$3,413,374</b>

On June 23, 2011, the City issued \$1,300,000 of general obligation notes with interest rates ranging from 0.45% to 2.75% per annum. The notes were issued to pay costs of reconstruction, enlargement, improvement and repair of bridges and approaches, sewer and street improvements and the refunding of outstanding general obligation indebtedness of the City. During the year ended June 30, 2020, the City paid \$145,000 of principal and \$7,823 of interest on the notes.

On February 25, 2015, the City issued \$800,000 of general obligation notes with interest rates ranging from 1.20% to 3.20% per annum. The notes were issued for undertaking an urban renewal project, including the purchase of a former car dealership for use by the Street Department. During the year ended June 30, 2020, the City paid \$50,000 of principal and \$15,370 of interest on the notes.

On March 24, 2015, the City issued \$100,000 of general obligation notes with interest rates ranging from 1.00% to 3.40% per annum. The notes were issued for undertaking an urban renewal project, including the purchase of an existing building for sale or lease to a private party. During the year ended June 30, 2020, the City paid \$10,000 of principal and \$1,769 of interest on the notes.

On December 2, 2019, the City issued \$2,000,000 of general obligation bonds with interest rates ranging from 2.00% to 2.75% per annum. The bonds were issued to pay for the cost of the demolition of the current municipal swimming pool facility and the constructing, furnishing and equipping a new municipal aquatic center. During the year ended June 30, 2020, no principal or interest was paid on the bonds.

CITY OF SHELL ROCK, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

(4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

CITY OF SHELL ROCK, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

(4) Pension Plan - continued

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%.

The City's contributions to IPERS for the year ended June 30, 2020 totaled \$23,894.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020, the City reported a liability of \$176,086 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the City's proportion was 0.003021%, which was a decrease of 0.000086% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$32,391, \$27,673 and \$34,498 respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of Inflation (effective June 30, 2017)	2.60% per annum
Rates of salary increase (effective June 30, 2017)	3.25% to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.



**CITY OF SHELL ROCK, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

(4) **Pension Plan** - continued

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b><u>Asset Class</u></b>	<b><u>Asset Allocation</u></b>	<b><u>Long-Term Expected Real Rate of Return</u></b>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
<b>Total</b>	<b><u>100.0%</u></b>	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	<b><u>1% Decrease (6.00%)</u></b>	<b><u>Discount Rate (7.00%)</u></b>	<b><u>1% Increase (8.00%)</u></b>
City's Proportionate share of the net pension liability	\$ 312,672	\$ 176,086	\$ 61,519

CITY OF SHELL ROCK, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

(4) Pension Plan - continued

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on pay-as-you-go basis. For the year ended June 30, 2020, the City contributed \$40,633 and plan members eligible for benefits did not contribute to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits - Individuals who are employed by the City of Shell Rock and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of service. At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	-
Active employees	<u>3</u>
Total	<u><u>3</u></u>

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, comp time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable, comp time payable and sick leave payable to employees at June 30, 2020, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 13,736
Comp time	2,325
Sick leave	51,194
Total	<u><u>\$ 67,255</u></u>

This liability has been computed based on rates of pay in effect at June 30, 2020.

**CITY OF SHELL ROCK, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**(7) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2020 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 58,522
	Capital Projects:	
	Capital Improvements	21,799
		<u>\$ 80,321</u>
Special Revenue:	Special Revenue:	
TIF IV - Industrial	Low to Moderate Income	\$ 13,505
Low to Moderate Income	TIF IV - Industrial	41,627
		<u>\$ 55,132</u>
Debt Service	General	\$ 16,343
	Special Revenue:	
	Local Option Sales Tax	\$ 25,000
	TIF IV - Industrial	33,805
		<u>\$ 58,805</u>
	Capital Projects:	
	Cherry Street Bridge	\$ 36,051
		<u>\$ 111,199</u>
Capital projects:		
Capital Improvements	General	\$ 31,598
2018 Aquatic Center	General	30,650
Library Building	Capital Projects:	
	Capital Improvements	15,000
		<u>\$ 77,248</u>
Total		<u>\$ 323,900</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(9) Deficit Balance**

The Special Revenue, Willow Tree First Addition Fund had a deficit balance of \$1,363 at June 30, 2020. The deficit will be eliminated upon receipt of special assessment receipts.

**(10) Related Party Transactions**

The City had business transactions between the City and City employees totaling \$1,679 during the year ended June 30, 2020.

**CITY OF SHELL ROCK, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**(11) Commitments**

At June 30, 2020, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred To Date</u>
Aquatic Center	<u>\$2,613,716</u>	<u>\$1,306,465</u>

**(12) Development Agreements**

The City has entered into a development agreement with J&M Willowtree LLC (developer) for new construction of residential lots with a minimum assessed value of \$375,000. The City agreed to pay the developer an amount not to exceed \$375,000 subject to annual appropriation by the City Council. The agreement requires up to fifteen annual payments, provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2020, the City rebated \$27,344 of incremental property tax to the developer. At June 30, 2020, the remaining balance to be paid on the agreement was \$130,680.

The City has entered into a development agreement with J&M Willowtree LLC (developer) for new construction of residential lots with a minimum assessed value of \$750,000. The City agreed to pay the developer an amount not to exceed \$880,000 subject to annual appropriation by the City Council. The agreement requires up to fifteen annual payments, provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2020, the City rebated no incremental property tax to the developer. At June 30, 2020, the remaining balance to be paid on the agreement was \$880,000.

The City has entered into a development agreement with Waverly Health Center (developer) for the construction of new facilities with a minimum assessed value of \$1,000,000. The City agreed to pay the developer an amount not to exceed \$191,812 subject to annual appropriation by the City Council. The agreement requires up to ten annual payments, provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2020, the City rebated \$6,472 of incremental property tax to the developer. At June 30, 2020, the remaining balance to be paid on the agreement was \$121,972.

The City has entered into a development agreement with Premier Property (developer) for development of an industrial lot with a minimum assessed value of \$500,000. The City agreed to pay the developer an amount not to exceed \$58,500 subject to annual appropriation by the City Council. The agreement requires up to six annual payments, provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2020, the City rebated no property tax to the developer. At June 30, 2020, the remaining balance to be paid on the agreement was \$58,500.

**(13) Tax Abatements**

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax receipts to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

CITY OF SHELL ROCK, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020

(13) **Tax Abatements** - continued

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2020, the City did not abate any property tax under the urban renewal and economic development projects.

Tax Abatement of Other Entities

Property tax revenues of the City were reduced by the following amounts for the year ended June 30, 2020 under agreements entered into by the following entity:

<u>Entity</u>	<u>Tax Abatement Program</u>	<u>Amount of Tax Abated</u>
---------------	------------------------------	-----------------------------

None

(14) **Contingency**

The COVID-19 outbreak is disrupting business across a range of industries in the United States and financial markets have experienced a significant decline. As a result, local, regional and national economics, including that of the City, may be adversely impacted. The extent of the financial impact of COVID-19 will depend on future developments, including the duration and spread, which are uncertain and cannot be predicted. Due to the uncertainties surrounding the outbreak, management cannot presently estimate the potential impact to the City's operations and finances.

## Other Information

CITY OF SHELL ROCK, IOWA  
BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
OTHER INFORMATION  
YEAR ENDED JUNE 30, 2020

	Governmental Funds Actual	Proprietary Funds Actual	Total
<b>RECEIPTS:</b>			
Property tax	\$ 651,938	\$ -	\$ 651,938
Tax increment financing	127,436	-	127,436
Other city tax	97,880	-	97,880
Licenses and permits	7,188	-	7,188
Use of money and property	21,825	639	22,464
Intergovernmental	379,802	-	379,802
Charges for service	9,595	440,005	449,600
Special assessments	1,995	-	1,995
Miscellaneous	619,632	5,306	624,938
Total receipts	<u>\$ 1,917,291</u>	<u>\$ 445,950</u>	<u>\$ 2,363,241</u>
<b>DISBURSEMENTS:</b>			
Public safety	\$ 123,722	\$ -	\$ 123,722
Public works	173,644	-	173,644
Health and social services	3,000	-	3,000
Culture and recreation	163,254	-	163,254
Community and economic development	84,206	-	84,206
General government	189,444	-	189,444
Debt service	283,212	-	283,212
Capital projects	1,589,115	-	1,589,115
Business type activities	-	380,331	380,331
Total disbursements	<u>\$ 2,609,597</u>	<u>\$ 380,331</u>	<u>\$ 2,989,928</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (692,306)	\$ 65,619	\$ (626,687)
Other financing sources, net	<u>1,984,000</u>	<u>-</u>	<u>1,984,000</u>
Change in fund balances	\$ 1,291,694	\$ 65,619	\$ 1,357,313
Balances beginning of year	<u>1,871,952</u>	<u>522,837</u>	<u>2,394,789</u>
<b>Balances end of year</b>	<u><b>\$ 3,163,646</b></u>	<u><b>\$ 588,456</b></u>	<u><b>\$ 3,752,102</b></u>

*See Accompanying Independent Auditor's Report.*

<u>Budgeted</u> <u>Original</u>	<u>Amounts</u> <u>Final</u>	<u>Final to</u> <u>Total</u> <u>Variance</u>
\$ 635,894	\$ 635,894	\$ 16,044
142,800	142,800	(15,364)
91,103	91,103	6,777
9,455	9,455	(2,267)
11,600	11,600	10,864
207,483	207,483	172,319
469,932	469,932	(20,332)
2,077	2,077	(82)
707,200	726,200	(101,262)
<u>\$ 2,277,544</u>	<u>\$ 2,296,544</u>	<u>\$ 66,697</u>
\$ 145,200	\$ 145,200	\$ 21,478
270,783	270,783	97,139
3,000	4,000	1,000
274,588	274,588	111,334
76,212	84,212	6
195,807	205,807	16,363
283,682	283,682	470
2,628,587	2,628,587	1,039,472
451,922	451,922	71,591
<u>\$ 4,329,781</u>	<u>\$ 4,348,781</u>	<u>\$ 1,358,853</u>
\$ (2,052,237)	\$ (2,052,237)	\$ 1,425,550
<u>2,000,000</u>	<u>2,000,000</u>	<u>(16,000)</u>
\$ (52,237)	\$ (52,237)	\$ 1,409,550
<u>2,011,528</u>	<u>2,011,528</u>	<u>383,261</u>
<u><b>\$ 1,959,291</b></u>	<u><b>\$ 1,959,291</b></u>	<u><b>\$ 1,792,811</b></u>



**CITY OF SHELL ROCK, IOWA**  
**NOTES TO OTHER INFORMATION - BUDGETARY REPORTING**  
**JUNE 30, 2020**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$19,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2020, no disbursements exceeded the amounts budgeted in any function.

CITY OF SHELL ROCK, IOWA  
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FOR THE LAST TWO YEARS\*  
(IN THOUSANDS)  
REQUIRED SUPPLEMENTARY INFORMATION

	<u>2020</u>	<u>2019</u>
City's proportion of the net pension liability	0.003021%	0.003107%
City's proportionate share of the net pension liability	\$176,086	\$196,549
City's covered payroll	\$272,167	\$277,785
City's proportionate share of the net pension liability as a percentage of its covered payroll	64.69%	70.76%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

*See Accompanying Independent Auditor's Report.*

CITY OF SHELL ROCK, IOWA  
SCHEDULE OF CITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FOR THE LAST TWO YEARS  
(IN THOUSANDS)  
OTHER INFORMATION

	<u>2020</u>	<u>2019</u>
Statutorily required contribution	\$ 24	\$ 23
Contributions in relation to the statutorily required contribution	<u>(24)</u>	<u>(23)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 272	\$ 278
Contributions as a percentage of covered payroll	8.82%	8.27%

*See Accompanying Independent Auditor's Report.*

**CITY OF SHELL ROCK, IOWA**  
**NOTES TO OTHER INFORMATION - PENSION LIABILITY**  
**YEAR ENDED JUNE 30, 2020**

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

## Supplementary Information

CITY OF SHELL ROCK, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

	<u>Special</u>			
	<u>Employee</u>	<u>Local</u>	<u>TIF III -</u>	<u>TIF IV -</u>
	<u>Benefits</u>	<u>Option</u>	<u>Willow</u>	<u>Industrial</u>
		<u>Sales Tax</u>		
<b>RECEIPTS:</b>				
Property tax	\$ 76,555	\$ -	\$ -	\$ -
Tax increment financing	-	-	28,607	81,434
Other city tax	-	94,243	-	-
Intergovernmental	-	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	-	470
Total receipts	<u>\$ 76,555</u>	<u>\$ 94,243</u>	<u>\$ 28,607</u>	<u>\$ 81,904</u>
<b>DISBURSEMENTS:</b>				
Operating:				
Culture and recreation	\$ 9,982	\$ -	\$ -	\$ -
Community and economic development	1,102	-	28,141	19,977
General government	7,011	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>\$ 18,095</u>	<u>\$ -</u>	<u>\$ 28,141</u>	<u>\$ 19,977</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 58,460</u>	<u>\$ 94,243</u>	<u>\$ 466</u>	<u>\$ 61,927</u>
Other financing sources (uses):				
Operating transfers in	\$ -	\$ -	\$ -	\$ 13,505
Operating transfers out	(58,522)	(25,000)	-	(75,432)
Total other financing sources (uses)	<u>\$ (58,522)</u>	<u>\$ (25,000)</u>	<u>\$ -</u>	<u>\$ (61,927)</u>
Change in cash balances	\$ (62)	\$ 69,243	\$ 466	\$ -
Cash balances beginning of year	<u>38,515</u>	<u>141,706</u>	<u>1,025</u>	<u>-</u>
<b>Cash balances end of year</b>	<b><u>\$ 38,453</u></b>	<b><u>\$210,949</u></b>	<b><u>\$ 1,491</u></b>	<b><u>\$ -</u></b>
<b>Cash Basis Fund Balances:</b>				
Restricted for other purposes	\$ 38,453	\$210,949	\$ 1,491	\$ -
Assigned for capital projects	-	-	-	-
Unassigned	-	-	-	-
Total cash basis fund balances	<u><b>\$ 38,453</b></u>	<u><b>\$210,949</b></u>	<u><b>\$ 1,491</b></u>	<u><b>\$ -</b></u>

(Continued)

Revenue			Capital Projects			
Low to Moderate Income	Willow Tree First Addition	Flood Buyout	1989 Library Building	Emergency Services Building	Cherry Street Bridge	2016 FEMA
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17,395	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	1,860	-	-	-	-
-	1,995	-	-	-	-	-
-	-	-	-	15,963	-	-
<u>\$ 17,395</u>	<u>\$ 1,995</u>	<u>\$ 1,860</u>	<u>\$ -</u>	<u>\$ 15,963</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	2,914	9,880	5,071	-	1,735
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,914</u>	<u>\$ 9,880</u>	<u>\$ 5,071</u>	<u>\$ -</u>	<u>\$ 1,735</u>
<u>\$ 17,395</u>	<u>\$ 1,995</u>	<u>\$ (1,054)</u>	<u>\$ (9,880)</u>	<u>\$ 10,892</u>	<u>\$ -</u>	<u>\$ (1,735)</u>
\$ 41,627	\$ -	\$ -	\$ 15,000	\$ -	\$ -	\$ -
(13,505)	-	-	-	-	(36,051)	-
<u>\$ 28,122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ -</u>	<u>\$ (36,051)</u>	<u>\$ -</u>
\$ 45,517	\$ 1,995	\$ (1,054)	\$ 5,120	\$ 10,892	\$ (36,051)	\$ (1,735)
126,274	(3,358)	17,568	-	11,749	36,051	1,735
<u><b>\$ 171,791</b></u>	<u><b>\$ (1,363)</b></u>	<u><b>\$ 16,514</b></u>	<u><b>\$ 5,120</b></u>	<u><b>\$ 22,641</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>
\$ 171,791	\$ -	\$ 16,514	\$ -	\$ -	\$ -	\$ -
-	-	-	5,120	22,641	-	-
-	(1,363)	-	-	-	-	-
<u><b>\$ 171,791</b></u>	<u><b>\$ (1,363)</b></u>	<u><b>\$ 16,514</b></u>	<u><b>\$ 5,120</b></u>	<u><b>\$ 22,641</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>

**CITY OF SHELL ROCK, IOWA**  
**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2020**

	<u>2016 CDBG Housing Rehab</u>	<u>Bicycle Shelter House</u>	<u>Total</u>
<b>RECEIPTS:</b>			
Property tax	\$ -	\$ -	\$ 76,555
Tax increment financing	-	-	127,436
Other city tax	-	-	94,243
Intergovernmental	121,093	-	122,953
Special assessments	-	-	1,995
Miscellaneous	-	8,020	24,453
Total receipts	<u>\$ 121,093</u>	<u>\$ 8,020</u>	<u>\$ 447,635</u>
<b>DISBURSEMENTS:</b>			
Operating:			
Culture and recreation	\$ -	\$ -	\$ 9,982
Community and economic development	-	-	49,220
General government	-	-	7,011
Capital projects	110,981	625	131,206
Total disbursements	<u>\$ 110,981</u>	<u>\$ 625</u>	<u>\$ 197,419</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 10,112</u>	<u>\$ 7,395</u>	<u>\$ 250,216</u>
Other financing sources (uses):			
Operating transfers in	\$ -	\$ -	\$ 70,132
Operating transfers out	-	-	(208,510)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (138,378)</u>
Change in cash balances	\$ 10,112	\$ 7,395	\$ 111,838
Cash balances beginning of year	(10,112)	-	361,153
<b>Cash balances end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ 7,395</u></u>	<u><u>\$ 472,991</u></u>
<b>Cash Basis Fund Balances:</b>			
Restricted for other purposes	\$ -	\$ -	\$ 439,198
Assigned for capital projects	-	7,395	35,156
Unassigned	-	-	(1,363)
<b>Total cash basis fund balances</b>	<u><u>\$ -</u></u>	<u><u>\$ 7,395</u></u>	<u><u>\$ 472,991</u></u>

*See Accompanying Independent Auditors Report.*



CITY OF SHELL ROCK, IOWA  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

	<u>Enterprise</u>	
	<u>Water Deposits</u>	<u>Water Depreciation</u>
Operating Receipts:		
Charges for service	\$ 3,695	\$ -
Operating Disbursements:		
Business type activities	<u>2,377</u>	<u>-</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ <u>1,318</u>	\$ <u>-</u>
Non-operating receipts:		
Interest on investments	\$ 50	\$ 136
Miscellaneous	<u>-</u>	<u>-</u>
Net non-operating receipts	\$ <u>50</u>	\$ <u>136</u>
Change in cash balances	\$ 1,368	\$ 136
Cash balances beginning of year	<u>36,018</u>	<u>39,047</u>
<b>Cash balances end of year</b>	<b><u>\$ 37,386</u></b>	<b><u>\$ 39,183</u></b>
<b>Cash Basis Fund Balances:</b>		
Restricted for debt service	\$ -	\$ 39,183
Committed for water deposits	37,386	-
Unrestricted	<u>-</u>	<u>-</u>
<b>Total cash basis fund balances</b>	<b><u>\$ 37,386</u></b>	<b><u>\$ 39,183</u></b>

*See Accompanying Independent Auditor's Report.*

<u>Sewer Depreciation</u>	<u>Garbage</u>	<u>Total</u>
\$ -	\$ 137,310	\$ 141,005
<u>-</u>	<u>143,641</u>	<u>146,018</u>
<u>\$ -</u>	<u>\$ (6,331)</u>	<u>\$ (5,013)</u>
\$ 87	\$ -	\$ 273
<u>-</u>	<u>924</u>	<u>924</u>
<u>\$ 87</u>	<u>\$ 924</u>	<u>\$ 1,197</u>
\$ 87	\$ (5,407)	\$ (3,816)
<u>23,944</u>	<u>52,145</u>	<u>151,154</u>
<u><b>\$ 24,031</b></u>	<u><b>\$ 46,738</b></u>	<u><b>\$ 147,338</b></u>
\$ 24,031	\$ -	\$ 63,214
<u>-</u>	<u>-</u>	<u>37,386</u>
<u>-</u>	<u>46,738</u>	<u>46,738</u>
<u><b>\$ 24,031</b></u>	<u><b>\$ 46,738</b></u>	<u><b>\$ 147,338</b></u>

CITY OF SHELL ROCK, IOWA  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2020

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<b>General Obligation Bonds and Notes:</b>			
Essential Corporate Purpose	07/27/10	2.00- 3.50%	\$ 400,000
Essential Corporate Purpose	06/23/11	0.45- 2.75	1,300,000
Essential Corporate Purpose	02/25/15	1.20- 3.20	800,000
Essential Corporate Purpose	03/24/15	1.00- 3.40	100,000
Essential Corporate Purpose	12/02/19	2.00- 2.75	2,000,000
<b>Total indebtedness</b>			

*See Accompanying Independent Auditor's Report.*

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 50,000	\$ -	\$ 50,000	\$ -	\$ 1,750	\$ -
295,000	-	145,000	150,000	7,823	-
610,000	-	50,000	560,000	15,370	-
60,000	-	10,000	50,000	1,769	-
-	2,000,000	-	2,000,000	-	-
<u><b>\$1,015,000</b></u>	<u><b>\$2,000,000</b></u>	<u><b>\$255,000</b></u>	<u><b>\$2,760,000</b></u>	<u><b>\$ 26,712</b></u>	<u><b>\$ -</b></u>

CITY OF SHELL ROCK, IOWA  
BOND AND NOTE MATURITIES  
JUNE 30, 2020

GENERAL OBLIGATION NOTES					
Year Ending June 30,	Essential		Essential		
	Corporate Purpose		Corporate Purpose		
	Issued June 23, 2011		Issued February 25, 2015		
	Interest Rates	Amount	Interest Rates	Amount	
2021	2.75%	\$ 150,000	1.60%	\$ 50,000	
2022		-	2.10	50,000	
2023		-	2.10	50,000	
2024		-	2.10	50,000	
2025		-	2.70	60,000	
2026		-	2.70	60,000	
2027		-	2.70	60,000	
2028		-	3.20	60,000	
2029		-	3.20	60,000	
2030		-	3.20	60,000	
Total		<u>\$ 150,000</u>		<u>\$ 560,000</u>	

Year Ending June 30,	Essential		GENERAL OBLIGATION BONDS		Total
	Corporate Purpose		Essential		
	Issued March 24, 2015		Corporate Purpose		
	Interest Rates	Amount	Interest Rates	Amount	
2021	2.60%	\$ 10,000	2.00%	\$ 80,000	\$ 290,000
2022	2.80	10,000	2.00	80,000	140,000
2023	3.00	10,000	2.00	85,000	145,000
2024	3.20	10,000	2.00	85,000	145,000
2025	3.40	10,000	2.00	90,000	160,000
2026		-	2.10	95,000	155,000
2027		-	2.10	95,000	155,000
2028		-	2.20	100,000	160,000
2029		-	2.20	100,000	160,000
2030		-	2.20	105,000	165,000
2031		-	2.20	105,000	105,000
2032		-	2.35	110,000	110,000
2033		-	2.35	115,000	115,000
2034		-	2.35	115,000	115,000
2035		-	2.45	120,000	120,000
2036		-	2.45	125,000	125,000
2037		-	2.75	130,000	130,000
2038		-	2.75	130,000	130,000
2039		-	2.75	135,000	135,000
Total		<u>\$ 50,000</u>		<u>\$2,000,000</u>	<u>\$2,760,000</u>

*See Accompanying Independent Auditor's Report.*



Larry Pump, CPA  
117 North Jackson Street  
Charles City, IA 50616

E-mail: rlp@fiai.net

(641) 257-4222  
or (641) 228-2812  
Fax (641) 228-1513

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL**  
**OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**  
**BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH**  
**GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Shell Rock, Iowa, as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated December 21, 2020. My report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2019.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Shell Rock's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Shell Rock's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Shell Rock's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Shell Rock's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies on internal control described the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. There are no deficiencies described in the accompanying Schedule of Findings that I consider to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shell Rock's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### The City of Shell Rock's Responses to the Findings

The City of Shell Rock's responses to findings identified in my audit are described in the accompanying Schedule of Findings. The City of Shell Rock's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Shell Rock during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



December 21, 2020

**CITY OF SHELL ROCK, IOWA**  
**Schedule of Findings**  
**Year Ended June 30, 2020**

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A)           Segregation of Duties

Criteria - Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition - One individual in the City has control over cash receipts, bank deposits, posting cash receipts to the cash receipts journal and reconciling bank accounts.

Cause - The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect - Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation - The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response - We have reviewed procedures and plan to make the necessary changes to improve internal control.

Conclusion - Response accepted.

(B)           Countersignature of Checks

Criteria - Management is responsible for establishing and maintaining control over disbursements. Dual signatures help prevent losses from improper disbursements.

Condition - The City requires checks to be signed by two authorized individuals. I noted one check with only one authorized signature.

Cause - Procedures have not been established to ensure checks have dual signatures.

Effect - Inadequate procedures could adversely affect the City's ability to detect and correct misstatements on a timely basis.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

Response - We will follow procedures for two signatures on all checks.

Conclusion - Response accepted.



**CITY OF SHELL ROCK, IOWA**  
**Schedule of Findings**  
**Year Ended June 30, 2020**

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget - No disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in any function. Chapter 384.18 of the Code of Iowa states that the City budget shall be amended by May 31 of the current fiscal year. The City amended the budget after May 31.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa and should be certified prior to the due date.

Response - The budget will be amended in accordance with the Code of Iowa in the future, if applicable.

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Matt Mohn, fire chief, Owner of Mohn Repair	Repairs	\$ 220
David Green, employee, Self-employed	Cleaning	1,459

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, none of the transactions above appear to represent a conflict of interest since total transactions with each individual did not exceed \$6,000 during the fiscal year.

- (5) Restricted Donor Activity - No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

- (6) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

- (7) Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

- (8) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- (9) Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1.

CITY OF SHELL ROCK, IOWA  
Schedule of Findings  
Year Ended June 30, 2020

**Other Findings Related to Required Statutory Reporting:** - continued

- (10)      Financial Condition - The Special Revenue, Willow Tree First Addition Fund had a deficit balances of \$1,363 at June 30, 2020.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial condition.

Response - The deficit was due to costs incurred prior to receipt of special assessments. This deficit will be eliminated upon receipt of these assessments.

Conclusion - Response accepted.

- (11)      Official Depositories - A resolution naming depositories has been approved by the City. The maximum deposit amount stated in the resolution was exceeded during the year ended June 30, 2020.

Recommendations - A new resolution should be approved in amounts sufficient to cover anticipated deposits for all depositories.

Response - We will review our current resolution and make changes as necessary.

Conclusion - Response accepted.